

**AUDIT OF THE
LAWRENCE COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2005

ROSS & COMPANY, PLLC
Certified Public Accountants
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APPENDIX A:

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

ROSS & COMPANY, PLLC
Certified Public Accountants

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Phillip L. Carter, Lawrence County Judge/Executive
Members of the Lawrence County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lawrence County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lawrence County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Lawrence County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lawrence County, Kentucky, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

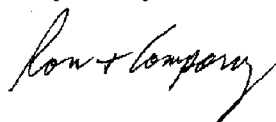
To the People of Kentucky
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(Continued)

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the budgetary comparison information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lawrence County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 3, 2006 on our consideration of Lawrence County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted

A handwritten signature in black ink, appearing to read "Ross & Company", is written over a horizontal line.

Ross & Company, PLLC

Audit fieldwork completed-
February 3, 2006

LAWRENCE COUNTY OFFICIALS

Fiscal Year Ended June 30, 2005

Fiscal Court Members:

Phillip L. Carter	County Judge/Executive
William Lemaster	Magistrate
Harold Slone	Magistrate
Mike Diamond	Magistrate
Gary Nelson	Magistrate

Other Elected Officials:

Michael T. Hogan	County Attorney
Phil Lacy	Jailer
Chris Jobe	County Clerk
Martha Kiser	Circuit Court Clerk
Garrett Roberts	Sheriff
Gray Maynard	Property Valuation Administrator
Michael Wilson	Coroner

Appointed Personnel:

Sabrina Cantrell	County Treasurer
Ruby Arrington	Finance Officer
David Gauze	Deputy Judge/Executive

LAWRENCE COUNTY
STATEMENT OF NET ASSETS-MODIFIED CASH BASIS

June 30, 2005

LAWRENCE COUNTY
STATEMENT OF NET ASSETS-MODIFIED CASH BASIS

June 30, 2005

	<u>Primary Governmental Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 790,420
Total Current Assets	<u>790,420</u>
Noncurrent Assets:	
Capital Assets-Net of Accumulated Depreciation	
Land	2,168,000
Buildings	3,816,245
Furniture and Office Equipment	11,179
Vehicles and Equipment	756,178
Infrastructure Assets-Net of Depreciation	<u>13,382,638</u>
Total Noncurrent Assets	<u>20,134,240</u>
Total Assets	<u>20,924,660</u>
LIABILITIES	
Current Liabilities:	
Short-Term Lease-KADD	490,000
Bonds Payable	50,000
KIA Payable	39,332
Financing Obligations	<u>203,000</u>
Total Current Liabilities	<u>782,332</u>
Noncurrent Liabilities:	
Bonds Payable	120,000
KIA Payable	682,958
Financing Obligations	<u>1,199,000</u>
Total Noncurrent Liabilities	<u>2,001,958</u>
Total Liabilities	<u>2,784,290</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	17,349,950
Unrestricted	<u>790,420</u>
Total Net Assets	<u>\$ 18,140,370</u>

The accompanying notes are an integral part of the financial statements.

LAWRENCE COUNTY
STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS

For The Fiscal Year Ended June 30, 2005

LAWRENCE COUNTY
STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS

Fiscal Year Ended June 30, 2005

Functions/Programs Reporting Entity	Program Revenue Received		Net (Expenditures) Revenues and Changes in Net Assets	
			Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government:				
Governmental Activities:				
General Government	\$ 1,821,294	\$	\$ 524,644	\$ (1,296,650)
Protection to Persons and Property	695,358	4,136	82,437	(608,785)
General Health and Sanitation	196,413	52,541	580,036	436,164
Social Services	41,458			(41,458)
Recreation and Culture	138,056			(138,056)
Roads	1,475,071		1,967,674	492,603
Debt Service (Interest)	97,326			(97,326)
Capital Projects	442,001			(442,001)
Administration	576,439			(576,439)
Total Government Activities	5,483,416	56,677	3,154,791	(2,271,948)
Total Primary Government	5,483,416	56,677	3,154,791	(2,271,948)
	General Revenues:			
	Taxes:			
	Real Property Taxes			554,528
	Motor Vehicle Tax			109,944
	Tangible Taxes			18,195
	Telephone Taxes(E-911)			210,188
	Others Taxes			285,187
	In Lieu of Taxes			207,175
	Excess Fees			38,226
	Unrestricted Investment Earnings			4,264
	Miscellaneous Revenue			306,934
	Total General Revenues			1,734,641
	Changes in Net Assets			(537,307)
	Net Assets-Beginning (Restated)			18,677,677
	Net Assets-Ending			\$ 18,140,370

The accompanying notes are an integral part of the financial statements.

LAWRENCE COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

June 30, 2005

LAWRENCE COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road And Bridge Fund	Local Government Economic Assistance Fund	Sewer Fees Fund	Non- Major Funds	Total Governmental Funds
ASSETS						
Cash	\$ 512,789	\$ 71,004	\$ 98,970	\$ 5,592	\$ 102,065	\$ 790,420
Total Assets	512,789	71,004	98,970	5,592	102,065	\$ 790,420
FUND BALANCES						
Reserved for:						
Encumbrances	5,131	2,877	1,100		968	10,076
Unreserved						
General Fund	507,658					507,658
Special Revenue Funds		68,127	97,870	5,592	101,097	272,686
Total Liabilities and Fund Balance	\$ 512,789	\$ 71,004	\$ 98,970	\$ 5,592	\$ 102,065	\$ 790,420

Reconciliation To Statement Of Net Assets

Total Fund Balances	\$ 790,420
Amounts reported for Government Activities in the Statement	
Of Net Assets are difference because:	
Capital Assets Used in Government Activities are not Financial	
Resources and therefore are not reported in the funds.	26,565,952
Depreciation	(6,431,712)
Long-term debt is not due and payable in the current period and,	
therefore, is not reported in the funds.	
Financing Obligations	(1,402,000)
Kentucky Infrastructure Authority Loan	(722,290)
Bonded Debt	(170,000)
Short-term lease not repaid as of June 30, 2005	(490,000)
Net Assets Of Government Activities	\$ 18,140,370

The accompanying notes are an integral part of the financial statements.

LAWRENCE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES-GOVERNMENTAL FUNDS-MODIFIEDCASH BASIS

For The Year Ended June 30, 2005

LAWRENCE COUNTY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	General Fund	Road And Bridge Fund	Local Government Economic Assistance Fund	Sewer Fees Fund	Non- Major Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 962,160	\$	\$	\$	\$215,881	1,178,041
In Lieu Of Taxes	207,175					207,175
Excess Fees	38,226					38,226
Licenses and Permits	20,718					20,718
Intergovernmental	1,110,680	1,261,718	705,956		76,437	3,154,791
Charges for Services	3,075			47,466	6,136	56,677
Miscellaneous	259,891	26,326				286,217
Interest	942	1,028	767	57	1,470	4,264
Total Revenue	<u>2,602,867</u>	<u>1,289,072</u>	<u>706,723</u>	<u>47,523</u>	<u>299,924</u>	<u>4,946,109</u>
EXPENDITURES						
General Government	2,160,887	18,139	27,608			2,206,634
Protection to Persons and Property	68,911				632,330	701,241
General Health and Sanitation	183,790		10,312			194,102
Social Services	41,458					41,458
Recreation and Culture	127,862		250			128,112
Roads	340,863	1,418,397	458,374			2,217,634
Debt Service:						
Principal	125,000	122,000		38,633		285,633
Interest	63,872	10,928		15,026		89,826
Issuance Cost	7,500					7,500
Capital Projects	414,354		5,710	21,924	13	442,001
Administration	385,762	142,987			47,690	576,439
Total Expenditures	<u>3,920,259</u>	<u>1,712,451</u>	<u>502,254</u>	<u>75,583</u>	<u>680,033</u>	<u>6,890,580</u>
Excess (Deficiency) of Revenue Over Expenditures Before Transfers and Financing Sources (Uses)	<u>(1,317,392)</u>	<u>(423,379)</u>	<u>204,469</u>	<u>(28,060)</u>	<u>(380,109)</u>	<u>(1,944,471)</u>
Other Financing Sources (Uses)						
Transfer From Other Funds	425,388	360,000		26,707	346,988	1,159,083
Transfers to Other Funds	(423,888)	(5,000)	(304,430)		(425,765)	(1,159,083)
KADD Short-Term Lease	490,000					490,000
KADD Lease Proceeds	137,463					137,463
Total Other Financing Sources (Uses)	<u>628,963</u>	<u>355,000</u>	<u>(304,430)</u>	<u>26,707</u>	<u>(78,777)</u>	<u>627,463</u>
Net Change in Fund Balances	(688,429)	(68,379)	(99,961)	(1,353)	(458,886)	(1,317,008)
Fund Balances-Beginning	1,201,218	139,383	198,931	6,945	560,951	2,107,428
Fund Balances-Ending	<u>\$ 512,789</u>	<u>\$ 71,004</u>	<u>\$ 98,970</u>	<u>\$ 5,592</u>	<u>\$102,065</u>	<u>\$ 790,420</u>

The accompanying notes are an integral part of the financial statements.

**LAWRENCE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

**LAWRENCE COUNTY
RECONCILIATION OF THE STATEMENTS OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS**

For The Fiscal Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (1,317,008)
Government Funds report Lease Proceeds (net) as other financing sources. However, in the Statement of Activities these are not shown as a revenue.	(627,463)
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	2,075,600
Depreciation Expense	(898,985)
Loss on Disposal of Capital Asset	(55,084)
Lease and bond principal payments are expended in the Governmental Funds as a use of current year financial resources	
Lease principal payments	197,000
Kentucky Infrastructure Authority Principal Payments	38,633
Bond Principal Payments	50,000
Change in Net Assets of Governmental Activities	<u><u>\$ (537,307)</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transaction, with few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet-Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Lawrence County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the entity includes a organization that is legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. Based upon the criteria stated in GASB 14, management has included the Lawrence County Public Properties Courthouse Corporation as part of the reporting entity.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Lawrence County Constitutional Elected Officials

The Kentucky constitution provides for election of the above officials from the geographic area constituting Lawrence County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Lawrence County, Kentucky.

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs. The County does not have business-type activities or fiduciary funds.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internal dedicated resources such as taxes and other unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Sewer Fee Fund-This fund is used primarily as a debt service fund for repayment of a loan from the Kentucky Infrastructure Authority. However, some maintenance expenses were also paid from this fund.

The primary government also has the following non-major funds: Jail Fund, Sewer Fund, Community Development Block Grant Fund, Forestry Fund, and E-911 Fund.

Special Revenues Funds:

The Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Sewer Fund, Community Development Block Grant Fund, Forestry Fund, and E-911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Sewer Fee Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 30, delinquent January 1, following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United State government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (road and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and construction in progress is not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings	25,000	10-75
Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	3-5
Infrastructure	20,000	10-50

G. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the statement of net assets and statement of activities, however encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the Fund Balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Jail Canteen Fund.

The State Local Finance Officer does not require the Jail Canteen fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

Note 2. Deposits (Continued)

In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government follows the requirements of KRS 41.240(4) and does not have a deposit policy for custodial risk. As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, on November 10, 2004, \$225,488 of the county's \$1,111,535 in deposits was exposed to custodial credit risk as follows:

- Uncollateralized and uninsured \$225,488

Note 3. Financing Obligations

The county entered into four lease agreements with the Kentucky Area Development District. The lease agreements were for road improvement, purchase of a truck, purchase of a backhoe, and the construction of a community center. The total principal and interest lease expense for the fiscal year ended June 30, 2005 was \$256,185. The future minimum lease payments for these leases are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Governmental Activities</u>
2006	\$ 257,428
2007	258,872
2008	196,419
2009	92,283
2010	75,330
2011-2015	385,158
2016-2020	384,975
2021-2025	<u>226,250</u>
Total Minimum Lease Payments	\$ 1,876,715
Less: Amount Representing Interest	<u>474,715</u>
Present Value of Minimum Lease Payments	<u>\$ 1,402,000</u>

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 2,168,000	\$	\$	\$ 2,168,000
Construction In Progress	2,135,000 (1)		(2,135,000)	
Total Capital Assets Not Being Depreciated	4,303,000		(2,135,000)	2,168,000
Capital Assets Being Depreciated:				
Buildings	2,264,701	2,600,000		4,864,701
Furniture and Office Equipment		15,000		15,000
Vehicles and Equipment	1,455,791 (2)	238,400	(119,900)	1,574,291
Infrastructure	16,586,760	1,357,200		17,943,960
Capital Assets Being Depreciated	20,307,252	4,210,600	(119,900)	24,397,952
Less Accumulated Depreciation For:				
Building	(941,569)	(106,887)		(1,048,456)
Furniture and Office Equipment		(3,821)		(3,821)
Vehicles and Equipment	(793,478) (3)	(89,451)	64,816	(818,113)
Infrastructure	(3,862,496)	(698,826)		(4,561,322)
Total Accumulated Depreciation	(5,597,543)	(898,985)	64,816	(6,431,712)
Total Capital Assets Being Depreciated, Net	14,709,709	3,311,615	(55,084)	17,966,240
Government Activities Capital Assets, Net	\$ 19,012,709	\$ 3,311,615	\$ (2,190,084)	\$ 20,134,240

(1) Adjustment for Construction in Progress not included in prior year audit.

(2) Includes net adjustments of \$51,250 for prior year duplications and omissions of assets.

(3) Includes net adjustment of \$16,307 to accumulated depreciated for duplications and omissions in prior year asset schedule.

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 94,660
Protection to Persons and Property	16,117
General Health and Sanitation	2,311
Recreation and Culture	9,944
Roads, Including Deprecion of General Infrastructure Assets	775,953
Total Depreciation Expense - Governmental Activities	\$ 898,985

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Short-Term Debt

On April 29, 2005, the county borrowed \$490,000 at a rate of 3.25% from the Kentucky Area Development District to pay remaining bills for the community center. The agreement is identified as a lease agreement; however, the note/lease has a maturity date of May 1, 2006 or one year. Due to the one-year maturity date it is included in the Government-Wide financial statements as short-term debt.

Note 6. Long-Term Debt

A. General Obligation Bonds

On July 1, 1987, the Lawrence County Building Commission issued \$685,000 of bonds, payable semiannually on January 1 and July 1 of each year beginning January 1, 1998. The purpose of this bond issue was to finance construction of the Lawrence County Courthouse Annex. The principal outstanding as of June 30, 2005, was \$170,000. Future principal and interest requirements are:

Fiscal Year Ended:		
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 50,000	\$ 10,513
2007	60,000	6,525
2008	<u>60,000</u>	<u>2,175</u>
Total	<u>\$170,000</u>	<u>\$ 19,213</u>

B. Sewer Lines

On November 1, 1998, Lawrence County Fiscal Court entered into an Assistance Agreement with the Kentucky Infrastructure Authority for the construction of sewer lines in the county. Terms of the agreement require principal and interest payments on June 1 and December 1 of each year. Principal and interest payments began on December 1, 2001, one year from the completion date of the original sewer project. As of June 30, 2001, the loan principal balance was \$710,852. During fiscal year 2002 the county received an extension on the project and secured an additional \$157,367. The dates and number of payments to satisfy this liability did not change only the amount per payments changed. The principal outstanding as of June 30, 2005, was \$722,290. Future principal and interest requirements are:

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Long-Term Debt (Continued)

B. Sewer Lines Continued)

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 39,332	\$ 14,250
2007	40,043	13,460
2008	40,767	12,655
2009	41,504	11,836
2010	42,254	11,003
2011-2015	223,013	41,968
2016-2020	243,916	18,742
2021-2023	<u>51,461</u>	<u>773</u>
Total	<u>\$ 722,290</u>	<u>\$ 124,687</u>

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>(a)</u> <u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 220,000	\$	\$ 50,000	\$ 170,000	\$ 50,000
Kentucky Infrastructure Authority Loan	760,923		38,633	722,290	39,332
Financing Obligations (Note 3)	<u>1,599,000</u>		<u>197,000</u>	<u>1,402,000</u>	<u>203,000</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 2,579,923</u>	<u>\$</u>	<u>\$ 285,633</u>	<u>\$ 2,294,290</u>	<u>\$ 292,332</u>

(a) The county received \$137,463 as final payment for a KADD lease agreement. The full amount of this agreement was included in the beginning balance for financing obligations. Therefore, we did not include it as an addition to long-term debt.

Note 7. Interest On Long-Term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$59,185 in interest on financing obligations, \$15,026 in interest on Kentucky Infrastructure Authority Loan and \$15,615 in interest on general obligation bonds.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 8. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspect of benefits for non-hazardous employees includes retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Insurance

For the fiscal year ended June 30, 2005, Lawrence County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Prior Period Adjustments

The beginning net assets on the Statement of Activities have been adjusted by a net of \$2,194,426 due to capital assets duplicated and omitted on the prior year capital asset schedule, construction in progress not included in the prior year audit, over statement of county's long-term liabilities and prior year outstanding checks voided.

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information
Modified Cash Basis

For The Year Ended June 30, 2005

GENERAL FUND				
	Budgeted Amounts		Actual Amount, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 807,755	\$ 939,050	\$ 962,160	23,110
In Lieu Of Taxes	230,698	230,698	207,175	(23,523)
Excess Fees	21,476	36,426	38,226	1,800
Licenses and Permits	6,600	18,809	20,718	1,909
Intergovernmental Revenues	2,746,522	3,086,460	1,110,680	(1,975,780)
Charges for Services	15,000	15,000	3,075	(11,925)
Miscellaneous	42,800	80,038	259,891	179,853
Interest	1,600	1,600	942	(658)
Total Revenues	3,872,451	4,408,081	2,602,867	(1,805,214)
EXPENDITURES				
General Government	1,605,866	2,245,834	2,160,887	84,947
Protection to Persons and Property	54,459	84,868	68,911	15,957
General Health and Sanitation	1,232,318	1,232,318	183,790	1,048,528
Social Services	55,663	67,913	41,458	26,455
Recreation and Culture	401,000	417,459	127,862	289,597
Roads	105,000	371,863	340,863	31,000
Debt Service:				
Principal	125,000	125,000	125,000	
Interest	61,828	63,928	63,872	56
Issuance Cost			7,500	(7,500)
Capital Projects	523,616	548,854	414,354	134,500
Administration	407,361	738,772	385,762	353,010
Total Expenditures	4,572,111	5,896,809	3,920,259	1,976,550
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(699,660)	(1,488,728)	(1,317,392)	171,336
OTHER FINANCING SOURCES (USES)				
Transfers From Other Fund	150,000	150,000	425,388	275,388
Transfers To Other Funds	(150,000)	(367,000)	(423,888)	(56,888)
KADD Short-Term Lease Proceeds			490,000	490,000
KADD Lease Proceeds	504,000	504,000	137,463	(366,537)
Total Other Financing Sources and (Uses)	504,000	287,000	628,963	341,963
Net Changes in Fund Balances	(195,660)	(1,201,728)	(688,429)	513,299
Fund Balance-Beginning	195,660	1,201,728	1,201,218	(510)
Funding Balance-Ending	\$	\$	\$ 512,789	\$ 512,789

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information
Modified Cash Basis
For The Year Ended June 30, 2005 (Continued)

ROAD AND BRIDGE FUND				
	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 1,275,039	\$ 1,404,574	\$ 1,261,718	\$ (142,856)
Miscellaneous	1,000	16,848	26,326	9,478
Interest	6,000	6,000	1,028	(4,972)
Total Revenues	1,282,039	1,427,422	1,289,072	(138,350)
EXPENDITURES				
General Government	6,724	18,139	18,139	
Roads	971,800	1,607,827	1,418,397	189,430
Debt Service:				
Principal	122,000	122,000	122,000	
Interest	10,928	10,928	10,928	
Administration	175,587	147,910	142,987	4,923
Total Expenditures	1,287,039	1,906,804	1,712,451	194,353
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(5,000)	(479,382)	(423,379)	56,003
OTHER FINANCING SOURCES (USES)				
Transfers From Other Fund		340,000	360,000	20,000
Transfers To Other Funds			(5,000)	(5,000)
Total Other Financing Sources and (Uses)		340,000	355,000	15,000
Net Changes in Fund Balances	(5,000)	(139,382)	(68,379)	71,003
Fund Balances Beginning	5,000	139,382	139,383	1
Fund Balances-Ending	\$	\$	\$ 71,004	\$ 71,004

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information
Modified Cash Basis
For The Year Ended June 30, 2005 (Continued)

Local Government Economic Assistance Fund				
Budgeted Amounts		Actual	Variance with	
Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)	
REVENUES				
Intergovernmental	\$ 547,000	\$ 705,955	\$ 705,956	\$ 1
Miscellaneous	100	100		(100)
Interest	1,500	1,500	767	(733)
Total Revenues	548,600	707,555	706,723	(832)
EXPENDITURES				
General Government	28,752	30,268	27,608	2,660
General Health and Sanitation	10,312	10,312	10,312	
Social Services	1,000	1,000		1,000
Recreation and Culture	898	898	250	648
Roads	202,567	485,748	458,374	27,374
Capital Project	1,000	5,710	5,710	
Administration	179	56,618		56,618
Total Expenditures	244,708	590,554	502,254	88,300
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	303,892	117,001	204,469	87,468
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(305,892)	(305,892)	(304,430)	1,462
Total Other Financing Sources (Uses)	(305,892)	(305,892)	(304,430)	1,462
Net Changes in Fund Balances	(2,000)	(188,891)	(99,961)	88,930
Fund Balances Beginning	2,000	188,891	198,931	10,040
Fund Balances-Ending	\$	\$	\$ 98,970	\$ 98,970

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information
Modified Cash Basis
For The Year Ended June 30, 2005 (Continued)

SEWER FEES FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges for Services	39,353	39,353	47,466	8,113
Interest	95	95	57	(38)
Total Revenues	39,448	39,448	47,523	8,075
EXPENDITURES				
Debt Service:				
Principal	19,058	38,633	38,633	
Interest	7,020	15,027	15,026	1
Capital Projects	13,370	22,180	21,924	256
Total Expenditures	39,448	75,840	75,583	257
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		(36,392)	(28,060)	8,332
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds		38,706	26,707	(11,999)
Total Other Financing Sources (Uses)		38,706	26,707	(11,999)
Net Changes in Fund Balances		2,314	(1,353)	(3,667)
Fund Balances-Beginning			6,945	6,945
Fund Balance-Ending	\$	\$ 2,314	\$ 5,592	\$ 3,278

**LAWRENCE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**LAWRENCE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

**LAWRENCE COUNTY
COMBINING BALANCE SHEET-
NON-MAJOR GOVERNMENTAL FUNDS-MODIFIED CASH BASIS**

June 30, 2005

	Jail Fund	Community Development Block Fund	Forestry Fund	E-911 Fund	Total Non-Major Governmental Funds
ASSETS					
Cash	\$ 491	\$ 9,582	\$ 34,284	\$ 57,708	\$ 102,065
Total Assets	<u>491</u>	<u>9,582</u>	<u>34,284</u>	<u>57,708</u>	<u>102,065</u>
FUND BALANCES					
Reserved for:					
Encumbrances				968	968
Unreserved:					
Special Revenue Funds	<u>491</u>	<u>9,582</u>	<u>34,284</u>	<u>56,740</u>	<u>101,097</u>
Total Fund Balance	<u>\$ 491</u>	<u>\$ 9,582</u>	<u>\$ 34,284</u>	<u>\$ 57,708</u>	<u>\$ 102,065</u>

LAWRENCE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES-NON-MAJOR GOVERNMENTAL FUNDS-
MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

LAWRENCE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-NON-MAJOR GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

Fiscal Year Ended June 30, 2005

	<u>Jail Fund</u>	<u>Sewer Fund</u>	<u>Community Development Block Grant Fund</u>	<u>Forestry Fund</u>	<u>E-911 Fund</u>	<u>Total Non-Major Governmental Funds</u>
REVENUES						
Taxes	\$	\$	\$	\$ 5,693	\$ 210,188	\$ 215,881
Intergovernmental	76,437					76,437
Charges For Services	4,136	2,000				6,136
Interest	55	1	739	175	500	1,470
Total Revenue	<u>80,628</u>	<u>2,001</u>	<u>739</u>	<u>5,868</u>	<u>210,688</u>	<u>299,924</u>
EXPENDITURES						
Protection to Persons and Property	380,479			3,532	248,319	632,330
Recreation and Culture						
Debt Service:						
Principal						
Interest						
Capital Project		13				13
Administration					47,690	47,690
Total Expenditures	<u>380,479</u>	<u>13</u>		<u>3,532</u>	<u>296,009</u>	<u>680,033</u>
Excess (Deficiency) of Revenue Over						
Expenditures Before Other Financing						
Sources (Uses)	<u>(299,851)</u>	<u>1,988</u>	<u>739</u>	<u>2,336</u>	<u>(85,321)</u>	<u>(380,109)</u>
OTHER FINANCING SOURCES (USES)						
Transfer From Other Funds	300,100		46,888			346,988
Transfers To Other Funds		(5,377)	(420,388)			(425,765)
Total Other Financing Sources (Uses)	<u>300,100</u>	<u>(5,377)</u>	<u>(373,500)</u>			<u>(78,777)</u>
Net Change in Fund Balances	249	(3,389)	(372,761)	2,336	(85,321)	(458,886)
Fund Balances-Beginning	242	3,389	382,343	31,948	143,029	560,951
Fund Balances-Ending	<u>\$ 491</u>	<u>\$</u>	<u>\$ 9,582</u>	<u>\$ 34,284</u>	<u>\$ 57,708</u>	<u>\$ 102,065</u>

LAWRENCE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2005

**LAWRENCE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, each major fund, and the aggregate remaining fund information of Lawrence County.
2. No reportable conditions relating to the audit of the financial statement are reported in the Independent Auditor's Report.
3. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
4. The auditor's report on compliance for the audit of the major federal awards programs for Lawrence County expresses an unqualified opinion.
5. There are no audit findings relative to the major federal awards programs of Lawrence County reported in Part C of this schedule.
6. The programs tested as a major programs were: Public Assistance Grant-FEMA-Severe Storm CFDA # 97.544; EPA Special Appropriations (US32 Sewer Line Project) CFDA # 66.606; Community Development Block Grant (Community Center) CFDA # 14.228 and Pride Cleanup Grant CFDA # 11.469.
7. The threshold for distinguishing Type A and B programs was \$300,000
8. Lawrence County was not determined to be a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. PRIOR YEAR FINDINGS

None

LAWRENCE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

LAWRENCE COUNTY FISCAL COURT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

Page 39

<u>Program Title</u>	<u>Federal CFDA No.</u>	<u>Disbursements</u>
U.S Department of Commerce		
<i>Passed through NOAA</i>		
PRIDE Cleanup	11.469	\$ 117,842 ***
East KY PRIDE (Clayton Ln Project)	11.469	67,356
Total U.S Department of Commerce		<u>185,198</u>
U.S Department of Housing & Urban Development		
<i>Passed Through Kentucky Dept of Local Government</i>		
Community Development Block Grant (Community Center)	14.228	180,450 ***
Appalachian Regional Commission		
Appalachian Regional Development (US 32 Sewer Project)	23.001	87,972
Enviornmental Protection Agency		
EPA Special Appropriations (US32 Sewer Line Project)	66.606	400,387 ***
U.S. Department of Homeland Security		
<i>Passed through Ky Dept of Military Affairs</i>		
Disaster & Emergency Assistance Grant - Salary	97.042	22,478
Public Assistance Grants (FEMA Disaster Grants)	97.036	187,227 ***
Total U.S. Department of Homeland Security		<u>209,705</u>
TOTAL FEDERAL EXPENDITURES		<u><u>\$ 1,063,712</u></u>

*Tested as Major Program ****

See accompanying notes to Schedule of Expenditures of Federal Awards

LAWRENCE COUNTY FISCAL COURT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2005

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal activity of the Lawrence County Fiscal Court and is presented on the modified-cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132

The Honorable Phillip L. Carter, Lawrence County Judge/Executive
Members of the Lawrence County Fiscal Court

Report on Internal Control Over Financial Reporting And on
Compliance And Other Matters Based on an Audit Of Financial
Statements Performed In Accordance With Governmental Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lawrence County, Kentucky as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated February 3, 2006. Lawrence County's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lawrence County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

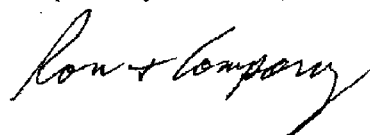
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lawrence County's financial statements as of June 30, 2005, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report on Internal Control Over Financial Reporting And on
Compliance And Other Matters Based on an Audit Of Financial
Statements Performed In Accordance With Governmental Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office of Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company PLLC

Audit fieldwork completed-
February 3, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299-1837
Telephone (502) 499-9088
Facsimile (502) 499-9132

The Honorable Phillip L. Carter, Lawrence County Judge/Executive
Members of the Lawrence County Fiscal Court

**Report On Compliance With Requirements Applicable
To Each Major Program And Internal Control Over
Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Lawrence County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Lawrence County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lawrence County's management. Our responsibility is to express an opinion on Lawrence County's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lawrence County's compliance with those requirements.

In our opinion Lawrence County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Lawrence County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lawrence County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

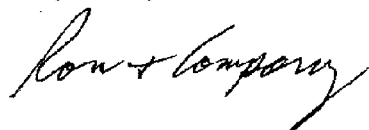
Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted one matter involving the internal control over financial reporting, which we have reported to management of the Lawrence County in a separate letter dated February 3, 2006.

This report is intended solely for the information and use of management, federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than the specified parties.

Respectively Submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company, PLLC

Audit Fieldwork Completed -
February 3, 2006

**CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

LAWRENCE COUNTY FISCAL COURT

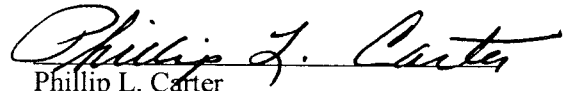
**For The Fiscal Year Ended
June 30, 2005**

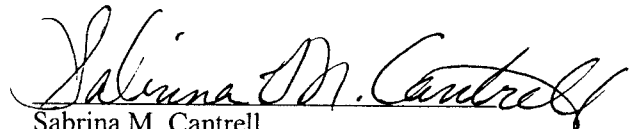
Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
LAWRENCE COUNTY FISCAL COURT

June 30, 2005

The Lawrence County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as indicated by the applicable Kentucky Revised Statutes.


Phillip L. Carter
County Judge/Executive


Sabrina M. Cantrell
County Treasurer